

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Queen Creek Unified School District No. 95

As of October 25, 2005



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 24, 2006

Governing Board
Queen Creek Unified School District No. 95
20740 South Ellsworth Road
Queen Creek, AZ 85242

Members of the Board:

In our December 17, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of October 25, 2005. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2004, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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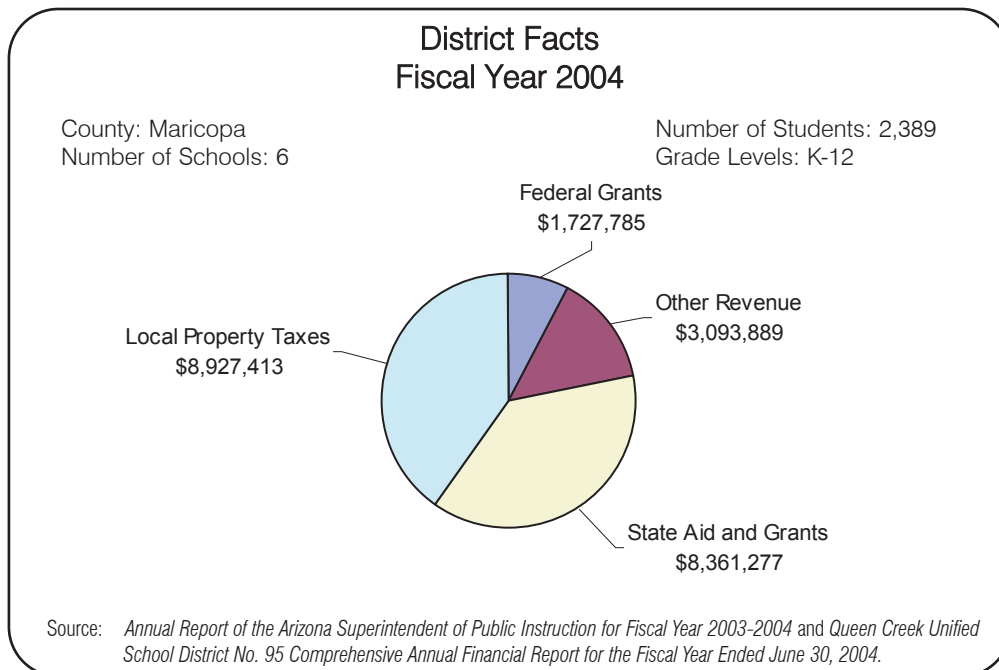
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INTRODUCTION

Queen Creek Unified School District No. 95 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$22 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve controls over cash and bank accounts

The District receives cash from various sources, including food service sales, auxiliary operations, and student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, ensure that cash is promptly and accurately recorded and deposited, and ensure that bank accounts are used as authorized by Arizona Revised Statutes (A.R.S.). These controls require that the District document amounts received, deposit cash receipts in a timely manner, retain support for checks written, and issue checks only for allowable purposes. However, the District did not establish and follow proper procedures for collecting and spending these monies. Employees did not always prepare prenumbered and numerically controlled cash receipt forms for auxiliary operations and student activities receipts. In addition, the District did not prepare daily sales or athletic ticket sales reports or activity or cash collection reports for auxiliary operations and student activities events to reconcile sales to cash collected. Also, the District did not deposit food service, auxiliary operations, and student activities cash receipts in a timely manner as an auxiliary operations and a student activities receipt, both in excess of \$2,000, were not deposited for over 2 weeks and 1 month, respectively. Monies in the Food Service Fund clearing account were not remitted to the County Treasurer at least monthly.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Additionally, the District included gifts and donations and teachers' social club monies in the auxiliary operations bank account, and monies that were not raised through the efforts of students in the student activities bank account. Also, the District improperly used its auxiliary operations and student activities bank accounts to account for its principals' supplies account monies, which was not an authorized use of these bank accounts. Further, some expenditures from principals' supplies monies were not authorized by A.R.S. §15-354.

Finally, the District did not always prepare and retain documentation to support auxiliary operations expenditures and student activities disbursements. Appropriate journals or ledger cards to account for auxiliary operations activity were not maintained, nor did student club members always approve student activities disbursements.

Recommendations

To help strengthen controls over receipts and disbursements, the District should:

Receipts

- Establish and follow proper cash collection procedures for auxiliary operations and student activities that require selling tickets, preparing prenumbered and sequentially ordered cash receipts forms, or recording item counts before and after a sale.
- Prepare daily sales or athletic ticket sales reports, or activity or cash collection reports to document sales, and reconcile sales to actual cash collections for auxiliary operations and student activities. If it is not practical to sell tickets or count items before and after a sale for student activities, such as bake sales, clubs should prepare a cash collection report to document cash collected.
- Deposit cash receipts intact daily, when significant, or at least weekly into the appropriate account.
- Deposit only monies raised in connection with school bookstores and athletic activities in the Auxiliary Operations Fund. Deposit only monies raised by the efforts of students in connection with activities of student organizations, clubs, school plays, or other student endeavors in the Student Activities Fund.
- Remit monies deposited into the food service clearing account to the County Treasurer weekly, or at least monthly.

Sample forms to record cash collections and reconcile sales to cash collected can be found on USFR pages X-G-17 and 21 and X-H-19 and 21.

Expenditures and Disbursements

- Prepare and retain documentation such as purchase requisitions, purchase orders, check requests, receiving reports, and vendor invoices to support auxiliary operations expenditures and student activities disbursements. Student activities disbursements should also be approved by, or on behalf of, the student clubs.
- Use the auxiliary operations and student activities bank accounts only for authorized purposes.
- Ensure that principals' supplies expenditures are made from a separate bank account established for that purpose and are allowable by law.

Principals' supplies activity should be accounted for in a principals' supplies bank account only and spent in accordance with A.R.S. §15-354.

Accounting Records

- Maintain ledger cards or cash receipts and disbursements journals to account for auxiliary operations activity.
- Prepare written bank reconciliations monthly, and ensure that they are signed and dated by the preparer and the reviewer.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should maintain accurate attendance records

Districts receive funding from the State of Arizona and local property taxes based on student attendance. In turn, the State requires school districts to maintain accurate

The District may not receive the appropriate amount of funding because the District's 40th-day membership and absences reported to ADE were significantly overstated by 21,735 and 378 days, respectively.

attendance records to help ensure that the District received the appropriate amount of state aid and local property taxes. However, the District's membership and absence records did

not always agree to ADE's reports. Also, the District did not properly calculate partial day attendance, withdraw students correctly, or include all required information on its entry and withdrawal forms.

Recommendations

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second district employee should verify that membership and absences reported to ADE are calculated accurately and agree with the District's attendance records, including entry and withdrawal forms and teacher attendance records. In addition, District employees should accurately prepare student entry and withdrawal forms.

The District should ensure the accuracy of its accounting records and effectively monitor spending capacity

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure its accounting records are accurate and complete. However, the District did not fully

The District did not ensure that sufficient cash was available in the Food Service Fund before authorizing expenditures, resulting in a deficit cash balance of over \$430,000 as of October 25, 2005.

accomplish this objective. Specifically, the District did not always prepare purchase orders before ordering goods or services. Also, the District's Food Service Fund had a significant negative cash balance. In addition, the District did not accurately allocate tuition revenue to the required funds. Further, amounts withheld from an employee's pay did not always agree with amounts calculated based on the employee's W-4 form. Finally, budgeted expenditures reported on the District's annual financial report (AFR) did not agree to the District's expenditure budget and the AFR was not published.

Recommendations

To help ensure that the District's accounting records are accurate and spending capacity is monitored, the District should follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee prior to ordering goods and services.
- Verify that sufficient cash balances are available in the Food Service Fund before authorizing purchases.
- Allocate tuition revenues to the Maintenance and Operation, Unrestricted Capital Outlay, Soft Capital Allocation, and Debt Service Funds based on amounts charged to the students' districts, as required by A.R.S. §15-824.
- Maintain accurate personnel files for all employees to support payroll withholdings and have a second employee verify the accuracy of the withholdings.
- Ensure that all amounts reported on the AFR are accurate and complete by having a second employee verify that amounts reported on the AFR agree with the District's expenditure budget and accounting records before submitting it to ADE.
- Publish the AFR by November 15 in a newspaper of general circulation within the District or in the official newspaper of the county, or mail to each household in the District.

USFR Memorandum
No. 215 provides
instructions for
completing and
publishing the AFR.